



County of Los Angeles  
**CHIEF ADMINISTRATIVE OFFICE**

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DAVID E. JANSSEN  
Chief Administrative Officer

Board of Supervisors

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November 19, 2002

The Honorable Board of Supervisors  
County of Los Angeles  
383 Kenneth Hahn Hall of Administration  
500 West Temple Street  
Los Angeles, CA 90012

Dear Supervisors:

**APPROVAL OF MEDICAL MALPRACTICE/HOSPITAL LIABILITY  
CLAIMS ADMINISTRATION AND LEGAL DEFENSE MANAGEMENT  
SERVICES CONTRACT  
(ALL DISTRICTS AFFECTED) (3-VOTES)**

**IT IS RECOMMENDED THAT YOUR BOARD:**

1. Approve and instruct the Chairman to sign the attached contract with Octagon Risk Services, Inc., to provide claims administration and legal defense management services for the County's medical malpractice, and hospital liability self-insurance program.
2. Instruct the Auditor-Controller to make payment for services, as appropriate, under this contract, as authorized and validated by the Chief Administrative Officer, from the appropriate General, Special or Enterprise Fund.

**PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION**

The recommended approval of this contract is to replace the existing contract with Octagon Risk Services, Inc. That existing contract expires on December 31, 2002. The County has utilized a third party administrator since 1975 to provide claims administration and legal defense management services for its medical malpractice and hospital liability self-insurance program. This contract will continue services to the Chief Administrative Office, County Counsel, the Department of Health Services, Department of Coroner, Sheriff's Department and Fire Department.



United We Stand

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Services required under this new contract have been expanded from the previous contract requirements, to support the County's unique and dynamic Quality Improvement Program as required by County Code Section 2.76.590 for the Department of Health Services. The Contractor will play an integral role in this management process through early investigation and quick resolution of incidents, claims, and lawsuits.

### **Implementation of Strategic Plan Goals**

This contract is consistent with the County's Strategic Plan Goal of Fiscal Responsibility. This contract is expected to assist the County to effectively manage its resources.

### **FISCAL IMPACT/FINANCING**

Services under this contract will be paid based on actual hours worked at fixed hourly rates, subject to an annual maximum cost, and including reimbursement of the Contractor's actual expenses. The annual maximum cost for each fiscal year is:

Board Approval thru 6/30/03	Fiscal Yr. 2003/04	Fiscal Yr. 2004/05	Fiscal Yr. 2005/06	Fiscal Yr. 2006/07	7/1/07 thru 12/1/07
\$1,450,000	\$3,200,000	\$3,000,000	\$3,000,000	\$3,000,000	\$1,500,000

The current contract cost is \$1.8 million per year. Under the new contract, there is a potential for increased costs, depending upon the hours of contract services used by departments. The new contract provides for expanded services required to better support the Quality Improvement Program implemented by County Counsel and the Department of Health Services. The purpose of the Quality Improvement Program is to reduce the County's liability from medical and hospital related incidents.

Under the new cost mechanism, expenses associated with Contractor services will more directly reflect the amount of time spent on each case, as well as the total workload of cases assigned to the Contractor. Departments will have greater ability to analyze the effectiveness of Contractor services, and their utilization of those services, resulting in improved control of Contractor costs.

Similar to the County's legal defense panel firms, the Contractor will bill its services in tenth of an hour increments. The County's new Risk Management Information System (RMIS) has been programmed to track time in quarter hour increments. Until RMIS is re-programmed to accept the tenth-hour increment data, the Contractor will track all hours worked in a separate Access data base, and generate written reports. Upon RMIS re-programming, this Access data will be converted and downloaded into RMIS. This arrangement will ensure that departments can review and track their contract cost, until this information becomes available on RMIS.

#### **FACTS AND PROVISIONS/LEGAL REQUIREMENTS**

This contract is being relet with the existing company, Octagon Risk Services, Inc. The contract will become effective January 1, 2003, when the current contract expires. The contract term is five years and has two one-year optional extensions that require Board approval.

The contract includes the following services:

- Third party administration services for incidents, claims and lawsuits including (1) entering and updating County's RMIS with activities, reserves, expenses, and other data; (2) conducting investigations and preserving evidence; (3) providing reports as required by County; (4) supervising, conducting, monitoring, and/or participating in settlement negotiations.
- As directed by County Counsel, Contractor will manage and monitor all medical malpractice and hospital liability litigation including (1) supervising the Legal Defense Panel; (2) participating in round table meetings; (3) tracking litigation costs and expenses; (4) attending, participating, and monitoring all legal proceedings.
- Financial and related administrative services including (1) arranging and purchasing annuity policies for structured settlements, and (2) payment of authorized indemnity, legal defense fees and expenses, and allocated expenses.

Living Wage Program requirements do not apply to this non-Proposition A contract. This contract meets all applicable County contracting requirements.

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### **CONTRACTING PROCESS**

The Request for Proposals (RFP) for these services was advertised in the Wall Street Journal, Los Angeles Times, La Opinion, Los Angeles Sentinel, and Acton/Aqua Dulce News. It was posted on the County contracting website and on August 9, 2002, it was released to 31 companies who requested copies.

A mandatory proposers' conference was held on August 20, 2002, to present the County's vision of how the selected contractor will be an integral part of the County's Quality Improvement Program, and to give a brief overview of the County's RMIS. Nine companies attended the proposers' conference, and three of the nine companies submitted two proposals. Octagon Risk Services, Inc. submitted a proposal, and Tristar Risk Management and Davis Risk joined together to submit a proposal.

The evaluation process began on September 11, 2002, and followed recommended County guidelines. The proposals evaluation panel was made up of impartial representatives from the Department of Health Services, County Counsel, CAO, Auditor-Controller, and the County Risk Management Advisory Committee. The representatives were selected to provide a balanced and unbiased panel. The panel's evaluation was based on criteria outlined in the RFP, contract rate/cost, proposer's work plan, proposers experience and capability, and proposer's quality control plan. Both proposers were interviewed by the evaluation panel to clarify their proposals. The evaluation process was completed on September 17, 2002. The Tristar proposal cost was lower, but the Octagon proposal overall received a higher score. Based on this evaluation, we are recommending the contract be awarded to Octagon Risk Services, Inc. located in Long Beach, California.

This contract does not include a cost of living adjustment.

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**IMPACT ON CURRENT SERVICES (OR PROJECTS)**

Implementation of these expanded third party administrator services will provide better support for the Quality Improvement Program required by County Code Section 2.76.590, and as designed and implemented by County Counsel and the Department of Health Services. The Contractor will provide services to County Counsel, Department of Health Services, Department of Coroner, Sheriff's Department, and Fire Department. All of these departments reviewed and approved the requirements of the RFP and this contract.

**CONCLUSION**

Please sign three copies of the attached contract and return two copies to the CAO.

Respectfully submitted,

DAVID E. JANSSEN  
Chief Administrative Officer

DEJ:SNY  
DU:EB:lis

Attachments

c: County Counsel  
Department of Health Services  
Department of Coroner  
Sheriff's Department  
Fire Department  
Auditor-Controller